The Christensen Fund

December 31, 2017 and 2016

Independent Auditors' Report

and

Consolidated Financial Statements

The Christensen Fund

Independent Auditors' Report and Consolidated Financial Statements

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

A Century Strong

Independent Auditors' Report

THE BOARD OF TRUSTEES
THE CHRISTENSEN FUND
San Francisco, California

We have audited the accompanying consolidated financial statements of **THE CHRISTENSEN FUND (The Christensen Fund or Christensen)**, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Christensen's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Christensen's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Christensen Fund as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

San Francisco, California
September 26, 2018

The Christensen Fund

Consolidated Statements of Financial Position

December 31,	2017	2016
Assets		
Cash and cash equivalents	$ 4,468,359	$ 27,133,450
Investments	284,298,028	247,466,266
Income-producing property	2,115,254	2,115,254
Prepaid expenses and other assets	1,523,290	1,356,475
Total assets	$ 292,404,931	$ 278,071,445
Liabilities and Net Assets		
Liabilities:		
Grants payable	$ 4,767,612	$ 4,849,170
Accounts payable and accrued liabilities	246,007	199,307
Deferred federal excise tax	869,527	869,527
Total liabilities	5,883,146	5,918,004
Unrestricted Net Assets	286,521,785	272,153,441
Total liabilities and net assets	$ 292,404,931	$ 278,071,445

See accompanying notes to consolidated financial statements.

The Christensen Fund

Consolidated Statements of Activities

Year Ended December 31,	2017	2016
Revenue, Gains and Other Income:		
Contributions	$ 119,814	$ 30,001,036
Rental income	810,236	810,236
Investment income, net	33,324,720	17,933,914
Other Income	31,765	42,560
Total revenue, gains and other income	34,286,535	48,787,746
Expenses:		
Program grants	11,213,522	12,290,803
Other program expenses	2,198,165	2,374,304
Investment management fees	4,295,464	4,172,711
General and administrative	1,949,588	2,108,590
Excise tax expense	261,452	489,801
Total expenses	19,918,191	21,436,209
Change in Net Assets	14,368,344	27,351,537
Net Assets - unrestricted, beginning of year	272,153,441	244,801,904
Net Assets - unrestricted, end of year	$ 286,521,785	$ 272,153,441

See accompanying notes to consolidated financial statements.

The Christensen Fund

Consolidated Statements of Cash Flows

Year Ended December 31,	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 14,368,344	$ 27,351,537
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	50,990	60,730
Net realized and unrealized gain on investments	(29,220,955)	(12,790,761)
Deferred excise tax		63,027
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	32,196	328,942
Program related note receivable	(250,000)	
Grants payable	(81,558)	104,570
Accounts payable	(13,609)	(22,372)
Accrued liabilities	60,308	3,225
Net cash (used) provided by operating activities	(15,054,284)	15,098,898
Cash Flows from Investing Activities:		
Proceeds from sales of investments	28,864,428	2,568,441
Purchases of investments	(20,360,000)	(180,000)
Receivable for unsettled investment transactions	(16,115,235)	
Purchases of property and equipment		(127,755)
Net cash (used) provided by investing activities	(7,610,807)	2,260,686
Change in Cash and Cash Equivalents	(22,665,091)	17,359,854
Cash and Cash Equivalents, beginning of year	27,133,450	9,773,866
Cash and Cash Equivalents, end of year	$ 4,468,359	$ 27,133,450
Supplemental Disclosures:		
Cash paid for federal excise taxes	$ 261,452	$ 371,709

See accompanying notes to consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies:

a. Organization

The Christensen Fund (The Christensen Fund or Christensen) is a nonprofit, tax-exempt, primarily grant making, private foundation established in 1957 through contributions from Allen D. and Carmen M. Christensen. Christensen's mission is rooted in their deep interest in the processes of creativity in the arts, promotion of knowledge through varied approaches to education, conservation of the natural environment, and the values of immersing ourselves in different cultures and their geographical settings.

Christensen believes in the power of biological and cultural diversity to sustain and enrich a world faced with great change and uncertainty. The Christensen Fund focuses on the biocultural -- the rich but neglected adapted interweave of people and place, culture and ecology -- by buttressing the efforts of people and institutions who believe in a biodiverse world infused with artistic expression and work to secure ways of life and landscapes that are beautiful, bountiful and resilient.

Christensen engages in place-based work concentrated in five regions chosen for their potential to withstand and recover from the global erosion of diversity. These include the San Francisco Bay Area, Northwest Mexico, Central Asia, the African Rift Valley, and Melanesia. It also funds global initiatives spanning these and other regions.

In 2010, Christensen established MEC Menlo, LLC ("MEC") a California limited liability company. MEC is a Single Member LLC where Christensen is the sole member. Christensen also entered into an agreement between Christensen and MEC, in which MEC was assigned all rights, title and interest of Christensen as the lessor under the lease and sublease agreements of Christensen for a property in Menlo Park, California. In connection with such assignment, MEC assumed all liabilities and obligations of Christensen with respect to the lease.

b. Basis of Presentation

The consolidated financial statements of Christensen have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations.

Net assets and changes therein are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are neither temporarily restricted nor permanently restricted by donor-imposed stipulations. There are no temporarily or permanently restricted net assets as of December 31, 2017 and 2016.

c. Principles of Consolidation

The consolidated financial statements include the accounts of The Christensen Fund and MEC Menlo, LLC. All intercompany accounts and transactions have been eliminated.

d. Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

e. Investments

Investments are reported at fair value. Changes in fair values as well as realized gains and losses are reflected in the statements of changes in net assets. Dividend and interest income are accrued when earned. Fair values are generally provided by using quoted market prices.

The fair value of alternative investments is determined using the Net Asset Value (NAV) per share as determined by investment managers under the so-called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Alternative investments represent amounts in marketable and non-marketable alternatives such as private equity, real estate, absolute return, and pooled funds. These investments are further discussed in Note 3.

f. Fair Value Measurements

Christensen carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Christensen classifies its financial assets and liabilities according to three levels and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

g. Fair Value of Financial Instruments

The estimated fair value of Christensen's financial instruments not measured at fair value on a recurring basis (including receivables, other assets, accounts payable, accrued expenses and grants payable) approximates their carrying values due to their short length to maturity.

h. Contributions

Contributions received are reported as unrestricted, temporarily restricted or permanently restricted, depending upon donor restrictions, if any. Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met.

i. Grants

Grants awarded with an unconditional promise to give are accrued as a liability and expensed when approved. Grant cancellations or unspent funds are recorded in the year cancelled or the funds are returned.

j. Fixed Assets

Christensen capitalizes all fixed assets with a cost greater than $5,000 and an estimated useful life in excess of one year. Fixed assets, including income-producing property, are recorded at cost or, if donated, at the estimated fair value on the date of the gift. Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the asset, ranging from three to 20 years.

k. Long-Lived Assets

Christensen reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. Impairment is recognized if the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. When an impairment loss is recognized, the asset's carrying value is reduced to its estimated fair value.

l. Functional Allocation of Expenses

Certain costs have been allocated among investment expenses and program administration expenses based on estimates made by the management of Christensen.

m. Federal Excise Taxes

The Christensen Fund is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from California franchise and/or income taxes under Section 23701(d) of the California Revenue and Taxation Code.

Christensen is subject to federal excise tax on its investment income. A provision for federal excise tax is accrued. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated at the effective rate expected to be paid by Christensen. In addition, Christensen may be subject to tax on unrelated business income, if any, generated by its investments.

Christensen follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 for accounting for uncertainty in income taxes. As of December 31, 2017 and 2016, management evaluated Christensen's tax positions and concluded that The Christensen Fund had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements.

n. Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

o. Prior Year Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to 2017 presentation. These reclassifications had no impact on net assets or the change in net assets.

p. New Accounting Pronouncements

In February 2016, the FASB issued authoritative guidance regarding Leases. The new standard will supersede much of the existing authoritative literature for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The standard will be effective for The Christensen Fund, since it is not deemed a public business entity, for its fiscal year beginning after December 15, 2019, and for interim periods beginning after December 15, 2020 with early application permitted. Entities are required to use modified retrospective application for leases that exist or are entered into after the beginning of the earliest comparative period in the consolidated financial statements with the option to elect certain transition reliefs. The Christensen Fund is currently evaluating the guidance and we are not certain of the impact but are assessing its implications.

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14 – Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in the Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments in the Update is permitted and applied retrospectively. The Christensen Fund is currently evaluating the impact of this pronouncement on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU does not apply to transfers of assets from governments to businesses. The amendments in the update are effective for fiscal years beginning after December 15, 2018. The Christensen Fund is currently evaluating the impact of this pronouncement on its consolidated financial statements.

q. Subsequent Events

The management of The Christensen Fund has reviewed the changes in its net assets for the period of time from its fiscal year ended December 31, 2017 through September 26, 2018, the date the consolidated financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements and no subsequent events have occurred which would require disclosure, except as described in Notes 6 and 8.

Note 2 - Investments and Fair Value Measurements:

Investments:

At December 31, 2017 and 2016, the fair market value of investments consists of the following:

	2017	2016
Mutual funds:		
Fixed income fund	$ 2,075,591	$ -
Equity funds	7,796,681	-
Balanced fund	12,101,689	-
Alternative investments measured at net asset value as practical expedient:		
Private equity	500,852	160,231
Absolute return	6,658	14,035
Pooled investments	245,701,321	247,292,000
Subtotal	$ 268,182,793	$ 247,466,266
Receivable for unsettled investment transactions	16,115,235	-
Total	$ 284,298,028	$ 247,466,266

Investment income, net for December 31, 2017 and 2016 include the following:

	2017	2016
Realized gain	$ 7,166,552	$ 5,389
Unrealized gain	22,054,403	12,785,372
Interest and dividend income	4,103,765	5,143,153
Total	$ 33,324,720	$ 17,933,914

Fair Value Measurement:

As of December 31, 2017, investments include mutual funds with a fair value of $21,973,961 and are classified as Level 1. In accordance with Subtopic 820-10, the alternative investments are valued using the Net Asset Value per share (or its equivalent) practical expedient and are not subject to the fair value hierarchy classification.

Note 3 - Net Asset Value Disclosures:

The Christensen Fund uses the Net Asset Value (NAV) as a practical expedient to determine the fair value of all the underlying investments which do not have readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments by major category as of December 31, 2017 and 2016:

	2017		2016			
Strategies	# of Funds	Valuation	# of Funds	Valuation	Redemption Frequency	Notice Period
Alternative Investments:						
Private equity (a):						
Venture capital funds	1	$ 500,852	1	$ 160,231	N/A	N/A
Absolute return (b):						
Multi-strategy:						
Non - Redeemable	1	6,658	1	14,035	N/A	N/A
Pooled funds:						
Liquid Market Fund **(c)**	1	12,870,175	1	13,744,007	Monthly	25 days
TCF Investment Holdings LP **(d)**	1	232,831,146	1	226,292,719	Varies	Varies
Global Endowment Targeted Strategy **(e)**	0	-	1	7,255,274	Monthly	10 days
Total	4	$ 246,208,831	5	$ 247,466,266		

a) Private equity funds invest in venture capital funds consisting of domestic and international private equity with the objective of long-term growth of capital. The partnerships typically have a legal life span of 10-14 years with no redemption rights for the limited partners. Unfunded commitments were $2,460,000 and $2,820,000 for 2017 and 2016, respectively.

b) The strategy of the Absolute Return is to provide diversification benefits to the overall portfolio through lower correlation to other traditional asset classes (e.g. Equity and Fixed Income) and to provide a buffer during equity market declines. Multi-strategy managers invest in a wide variety of securities, typically rotating between equity, bank debt, convertible bonds, and other fixed income securities depending on the manager’s view on relative attractiveness, with the objective of exploiting arbitrage opportunities or identifying undervalued assets without incurring systematic market risk.

c) The Liquid Market Fund seeks to achieve its objective by diversifying across multiple asset classes, and may invest in common and preferred stocks, exchange-traded funds, mutual funds, master limited partnerships, real estate investment trusts, high yield bonds, government securities and money market instruments, and derivative and other synthetic instruments. The shares may be redeemed on a monthly basis and the redemption request must be made prior to the 25th day of the month.

d) TCF Investments Holding, LP (TCFIH) is a private investment partnership offering an endowment-style investment program. TCFIH invests with a long-term horizon, seeking varied and non-traditional investment opportunities in an effort to provide a diversified, single-portfolio investment strategy for the investor. This strategy includes the Christensen Fund's own legacy portfolio investments (Vintage Investments) which are pooled accounts managed by unaffiliated third parties, generally private equities. TCFIH invests most of its assets, via a master feeder relationship (a fund which then invests into a master fund), in Global Endowment Fund II, LP. The Global Endowment Fund II employs strategies including: public equities, venture capital, private equity, real estate, natural resources and hedged strategies.

   TCFIH invested solely in marketable securities separately managed by Golden Capital Management, LLC. Golden Capital Management, LLC continues to act as the advisor to Global Endowment Management of that account, pricing that portfolio monthly and providing a statement with a total portfolio net asset value for those marketable securities. As of December 31, 2016, TCFIH was redeemable daily without any restrictions. As of December 31, 2017, TCFIH continued to hold the investment in the Golden Capital managed portfolio in addition to contributing to the larger structure described above.

   Each of the TCFIH investments, accounts and portfolios has its own liquidity profile, ranging from daily to longer than three years. Withdrawals of excess cash within TCFIH are permitted at any time. TCFIH can redeem any of the Vintage Investments by authorizing GEM to sell that investment at any time. The Global Endowment Fund II component allows annual redemptions with a 120-day redemption notice period, and these redemptions flow directly to The Christensen Fund. TCFIH redemption proceeds for accepted redemption requests will be made within 60 days after the redemption date. The total redemption available annually is limited to 7% of the NAV as of December 31 of the request year. At least 90% of any amount withdrawn will be paid within 60 days. The remaining will be paid no later than 60 days after the completion of the annual audit. Unfunded long-term commitments were $1,488,770 as of 2017 and will be funded by the available cash balance held in TCFIH.

e) The Global Endowment Targeted Strategy Fund is a private investment partnership offering a short-term cash investment program. The investment fund invests most of its assets in GEF-FED, LP. GEF-FED, LP invests predominately in high grade short-term, interest bearing securities issued by corporate, federal, state and local government agencies. Christensen is subject to monthly redemption with a 10-day redemption notice period.

Note 4 - Income-Producing Property:

Income-producing property at December 31, 2017 and 2016 consists of land in the amount of $2,115,254.

MEC, leases the land and sub-leases an operating ground lease to an unrelated third party under a master lease arrangement. The master lease expires on October 31, 2058.

Future minimum rental income under the master lease is as follows:

Year Ended December 31,	
2018	$ 810,236
2019	810,236
2020	810,236
2021	810,236
2022	810,236
Thereafter	33,756,902
Total	$ 37,808,082

The operating ground lease expires on October 31, 2058. This rent is adjusted every 10 years to up to one half of one percent per month of the fair market value of the land. If the sub-lessee were to default on the ground lease, MEC, would be responsible for the rent.

Note 5 - Prepaid Expenses and Other Assets:

Prepaid expenses and other assets at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Mineral rights	$ 966,650	$ 966,650
Wyoming property (net of accumulated amortization of $57,270 and $48,207)	133,048	142,111
Property and equipment, (net of accumulated depreciation of $73,258 and $1,109,201)	96,352	137,761
Program related note receivable	250,000	
Other	77,240	109,953
	$ 1,775,890	$ 1,356,475

Depreciation and amortization expense on property and equipment for 2017 and 2016 was $50,990 and $60,730, respectively.

In a prior year, Christensen received contributions in the form of mineral rights for property in Colorado and Wyoming. Christensen maintains all rights to develop and maintain the existing mineral rights. Upon receipt of the contributions Christensen obtained appraisals on each of the properties and it was determined that the fair value of the mineral rights when received were $537,760 and $428,890, respectively.

A portion of the Wyoming property is income producing and will be amortized over an estimated 21-year life of the producing property.

Note 6 - Line of Credit:

In a prior year, Christensen entered into a revolving line of credit agreement with Wells Fargo Bank in the amount of $2,000,000 and is collateralized by all inventory, equipment and accounts. The interest rate on this note is 3.5% and requires monthly payments of interest only, with the entire principal and unpaid interest due at maturity. In 2017, the revolving line of credit was renewed with maturity date of February 18, 2018. At December 31, 2017, there is no balance outstanding on this note. Christensen elected not to renew the agreement after the expiration date.

Note 7 - Grants Payable:

Total grants payable as of December 31, 2017 and 2016 were $4,767,612 and $4,849,170, respectively. Grants payable as of December 31, 2017 are expected to be paid as follows: $4,427,612 within one year and $340,000 within two to five years.

As of December 31, 2017, conditional grants were approved by the board for a maximum of $2,180,000.

Note 8 - Lease Obligations:

As of December 31, 2017 and 2016, Christensen maintained an office location in San Francisco and a regional office in Bishkek, Kyrgyzstan. Christensen San Francisco office entered into a new lease agreement effective December 1, 2015 for a term of 61 months expiring December 2020 with monthly base rent of $16,885 and a 3% annual increase. In August 2018, Christensen terminated its lease in Bishkek, Kyrgyzstan. In addition, Christensen maintains lease agreements for office equipment.

Future minimum lease payments are as follows:

Year Ended December 31,		
2018	$	271,976
2019		278,441
2020		266,440
Total	$	816,857

Total rent expense for office and equipment operation leases for 2017 and 2016 were $292,914 and $302,081, respectively.

Note 9 - Excise Taxes:

In accordance with the applicable Treasury provisions, Christensen is classified as a private foundation subject to an excise tax of two percent on net investment income, including realized gains. Christensen is eligible to reduce its tax liability from two percent to one percent of net investment income if a certain level of distributions, calculated as defined in the Treasury regulations, is attained. The tax rate for the current excise tax provision was two percent for 2017 and 2016. Christensen provides for deferred excise tax at the rate of two percent on its unrealized appreciation on investments.

The provisions for current and deferred taxes for the years ended December 31, 2017 and 2016 are as follows:

		2017		2016
Current excise tax	$	261,452	$	426,773
Deferred excise tax		-		63,028
Total	$	261,452	$	489,801

Note 10 - Concentrations of Risk:

Investments in general are exposed to various risks, such as interest rate, credit and overall market volatility. The alternative investments include additional risks such as limited liquidity, non-marketable investments and dependence on key individuals. To address the risk of investments, Christensen maintains a formal investment policy that sets out performance criteria, investment guidelines, asset allocation guidelines and requires review of the investment performance.

As of December 31, 2017, one investment fund represented approximately 87% of total investments. As of December 31, 2016, one investment fund represented approximately 91% of total investments.

Christensen maintains its cash in bank accounts in amounts which, at times, may exceed federally insured limits. Christensen has not experienced any losses in such accounts.

Note 11 - Related Parties:

Christensen has and may continue to have Trustees, committee members, and staff members who are affiliated with organizations that are current grantees or are being considered for a grant by Christensen. Christensen has a conflict of interest policy which covers situations that may constitute a conflict of interest and the procedure to address the conflict when it occurs. The policy requires Trustees, committee members, and staff members to annually update and disclose to the governing Board their grantee and organization relationships.